

104TH CONGRESS
1ST SESSION

H. R. 645

To amend the Internal Revenue Code of 1986 to provide for nonrecognition of gain on the sale of eligible small business stock if the proceeds of the sale are reinvested in other eligible small business stock.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 24, 1995

Mr. WYDEN (for himself, Mr. MATSUI, and Mr. SPRATT) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide for nonrecognition of gain on the sale of eligible small business stock if the proceeds of the sale are reinvested in other eligible small business stock.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Entrepreneurship Pro-
5 motion Act of 1995”.

1 **SEC. 2. ROLLOVER OF GAIN FROM SALE OF ELIGIBLE**
2 **SMALL BUSINESS STOCK INTO OTHER ELIGI-**
3 **BLE SMALL BUSINESS STOCK.**

4 (a) IN GENERAL.—Part III of subchapter O of chap-
5 ter 1 of the Internal Revenue Code of 1986 (relating to
6 common nontaxable exchanges) is amended by adding at
7 the end the following new section:

8 **“SEC. 1045. ROLLOVER OF GAIN FROM SALE OF ELIGIBLE**
9 **SMALL BUSINESS STOCK INTO OTHER ELIGI-**
10 **BLE SMALL BUSINESS STOCK.**

11 “(a) NONRECOGNITION OF GAIN.—In the case of the
12 sale of any eligible small business stock with respect to
13 which the taxpayer elects the application of this section,
14 gain from such sale shall be recognized only to the extent
15 that the amount realized on such sale exceeds—

16 “(1) the cost of any other eligible small busi-
17 ness stock purchased (as defined by section
18 1043(b)(4)) by the taxpayer during the 18-month
19 period beginning on the date of such sale, reduced
20 by

21 “(2) any portion of such cost previously taken
22 into account under this section.

23 This section shall not apply to any gain which is treated
24 as ordinary income for purposes of this subtitle.

25 “(b) ELIGIBLE SMALL BUSINESS STOCK.—For pur-
26 poses of this section—

1 “(1) IN GENERAL.—Except as otherwise pro-
2 vided in this section, the term ‘eligible small busi-
3 ness stock’ means any stock in a C corporation if—

4 “(A) as of the date of issuance, such cor-
5 poration is an eligible small business, and

6 “(B) such stock is acquired by the tax-
7 payer at its original issue (directly or through
8 an underwriter) in exchange for money or other
9 property (not including stock).

10 “(2) ACTIVE BUSINESS REQUIREMENT.—Sub-
11 section (a) shall not apply to the sale of any eligible
12 small business stock unless, during substantially all
13 of the taxpayer’s holding period for such stock, the
14 corporation meets the active business requirements
15 of subsection (d) and such corporation is a C cor-
16 poration. For purposes of the preceding sentence, a
17 rule similar to the rule of section 1202(c)(2)(B)
18 shall apply.

19 “(3) SPECIAL RULE FOR STOCK ISSUED BY S
20 CORPORATIONS.—In the case of stock which, as of
21 the date of the sale to which subsection (a) applies,
22 is stock of an eligible small business but which, as
23 of the date of issuance, was not stock of an eligible
24 small business solely by reason of the fact that the
25 corporation was an S corporation—

1 “(A) such stock shall be treated as meeting
2 the requirement of paragraph (1)(A), but

3 “(B) subsection (a) shall not apply to so
4 much of the gain which is attributable to the
5 period before such stock became stock of an eli-
6 gible small business.

7 “(4) CERTAIN PURCHASES BY CORPORATION OF
8 ITS OWN STOCK.—Rules similar to the rules of sec-
9 tion 1202(c)(3) shall apply for purposes of this sub-
10 section.

11 “(c) ELIGIBLE SMALL BUSINESS.—For purposes of
12 this section, the term ‘eligible small business’ means any
13 domestic corporation which is a C corporation if the aggre-
14 gate annual gross receipts of such corporation (or any
15 predecessor thereof) for all taxable years ending before the
16 date of issuance did not exceed \$20,000,000. For purposes
17 of the preceding sentence, rules similar to the rules of
18 paragraphs (2) and (3) of section 448(c) shall apply.

19 “(d) ACTIVE BUSINESS REQUIREMENT.—For pur-
20 poses of subsection (b)(2), the requirements of this sub-
21 section are met by a corporation for any period if during
22 such period—

23 “(1) at least 80 percent (by value) of the assets
24 of such corporation are used by such corporation in

1 the active conduct of 1 or more trades or businesses,
2 and

3 “(2) such corporation is an eligible corporation
4 (as defined in section 1202(e)(4)).

5 For purposes of the preceding sentence, a rules similar
6 to the rules of paragraphs (2), (5), (6), (7) and (8) of
7 section 1202(e) shall apply.

8 “(e) BASIS ADJUSTMENTS.—If gain from any sale is
9 not recognized by reason of subsection (a), such gain shall
10 be applied to reduce (in the order acquired) the basis for
11 determining gain or loss of any eligible small business
12 stock purchased by the taxpayer during the 18-month pe-
13 riod described in subsection (a). This subsection shall not
14 apply for purposes of section 1202.

15 “(f) STATUTE OF LIMITATIONS.—If any gain is real-
16 ized by the taxpayer on any sale to which an election under
17 this section applies, then—

18 “(1) the statutory period for the assessment of
19 any deficiency with respect to such gain shall not ex-
20 pire before the expiration of 3 years from the date
21 the Secretary is notified by the taxpayer (in such
22 manner as the Secretary may by regulations pre-
23 scribe) of—

24 “(A) the taxpayer’s cost of purchasing any
25 eligible small business stock,

